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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA DIVISION

13 In re:
14 THE SOURCE HOTEL, LLC, a
15 California limited liability company,
16 Debtor and Debtor in Possession.

Case No.: 8:21-bk-10525-ES

Chapter 11

**NOTICE OF MOTION AND MOTION FOR
ENTRY OF AN ORDER (A)
AUTHORIZING DEBTOR TO USE CASH
COLLATERAL; AND (B) AUTHORIZING
DEBTOR TO OBTAIN POST-PETITION
FINANCING FROM M+D PROPERTIES
ON AN UNSECURED BASIS;
MEMORANDUM OF POINTS AND
AUTHORITIES; DECLARATION OF
DONALD CHAE IN SUPPORT THEREOF**

Hearing:

Date: June 10, 2021
Time: 10:30 a.m.
Place: ZoomGov

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1 **TO THE HONORABLE ERITHE A. SMITH, UNITED STATES BANKRUPTCY**
2 **JUDGE, THE OFFICE OF THE UNITED STATES TRUSTEE, ALL KNOWN**
3 **SECURED CREDITORS, TWENTY LARGEST UNSECURED CREDITORS, AND ALL**
4 **PARTIES REQUESTING SPECIAL NOTICE:**

5 **PLEASE TAKE NOTICE** that a hearing will be held on June 10, 2021 at 10:30 a.m.,
6 before the Honorable Erithe A. Smith, United States Bankruptcy Judge for the Central District of
7 California, Santa Ana Division, in Courtroom "5A" located at 411 West Fourth Street, Santa
8 Ana, California 92701, for the Court to consider the motion (the "Motion") filed by The Source
9 Hotel, LLC, a California limited liability company and the Chapter 11 debtor and debtor-in-
10 possession herein (the "Debtor"), for the entry of an order: (A) authorizing the Debtor to use
11 cash collateral in accordance with the Debtor's proposed operating budget covering the
12 approximately four month period from May 29, 2021 through and including October 1, 2021 (the
13 "Budget"), a true and correct copy of which is attached as **Exhibit "1** to the Declaration of
14 Donald Chae (the "Chae Declaration") annexed hereto; and (B) authorizing the Debtor to obtain
15 post-petition financing up to \$80,000 on a general unsecured basis from the Debtor's affiliate
16 and non-member Manager, M+D Properties, a California corporation ("M+D"), on an as-needed
17 basis to cover any shortfalls in the Budget. The full basis for the Motion are set forth in detailed
18 in the attached Memorandum of Points and Authorities and the Chae Declaration attached hereto.

19 The Motion is based upon 11 U.S.C. § 363, Rules 4001 and 9014 of the Federal Rules
20 of Bankruptcy Procedure, and Local Bankruptcy Rules 4001-2 and 9013-1, the supporting
21 Memorandum of Points and Authorities and the Chae Declaration attached hereto, the
22 statements, arguments and representations of counsel to be made at the hearing on the Motion,
23 and any other evidence properly presented to the Court at or prior to the hearing on the Motion.

24 **PLEASE TAKE FURTHER NOTICE** that, pursuant to Local Bankruptcy Rule 9013-
25 1(f), any opposition to the Motion must be in writing, filed with the Court and served upon the
26 United States Trustee as well as counsel for the Debtor at the address set forth in the upper left-
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1 hand corner of the first page of this Notice and Motion by no later than fourteen (14) days before
2 the date of the hearing on the Motion.

3 **PLEASE TAKE FURTHER NOTICE** that, pursuant to Local Bankruptcy Rule 9013-
4 (h), the failure to file and serve a timely opposition to the Motion may be deemed by the Court
5 to constitute consent to the granting of the relief requested in the Motion.

6 **WHEREFORE**, the Debtor respectfully requests that this Court enter an order, in
7 substantially the form attached as **Exhibit “2”** to the Chae Declaration annexed hereto:

8 (1) granting the Motion;

9 (2) authorizing the Debtor to use cash collateral to (i) pay all of the expenses set forth
10 in the Budget, with authority to deviate from the line items contained in the Budget by up to
11 10%, on both a line item and aggregate basis, with any unused portions to be carried over into
12 the following week(s); and (ii) pay all quarterly fees owing to the Office of the United States
13 Trustee and all expenses owing to the Clerk of the Bankruptcy Court;

14 (3) authorizing the Debtor to obtain the DIP Loan from M+D in an amount up to
15 \$80,000, at the discretion of M+D, to cover any shortfalls in the Debtor’s Budget; and

16 (4) granting such further relief as the Court deems just and proper.

17 Dated: May 19, 2021

THE SOURCE HOTEL, LLC



20 By: _____

21 RON BENDER
22 JULIET Y. OH
23 LEVENE, NEALE, BENDER, YOO
24 & BRILL L.L.P.
25 Attorneys for Chapter 11 Debtor and
26 Debtor-in-Possession

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MEMORANDUM OF POINTS AND AUTHORITIES

I.

STATEMENT OF FACTS

A. Background.

1. On February 26, 2021 (the “Petition Date”), The Source Hotel, LLC, a California limited liability company and the debtor and debtor-in-possession herein (the “Debtor”), filed a voluntary petition for relief under Chapter 11 of 11 U.S.C. §§ 101 *et seq.* (the “Bankruptcy Code”). The Debtor is continuing to manage its financial affairs and operate its bankruptcy estate as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

2. The Debtor is a limited liability company that was organized in November, 2012 in the State of California. DMC Investment Holdings, LLC (“DMC”) is a member of the Debtor which holds 100 units (or 100%) of Series 1 membership units in the Debtor. Donald Chae and Min S. Chae, who are brothers, are the members and principals of DMC. In addition to the Series 1 membership units held by DMC, an EB-5 investor entity called Beach Orangethorpe Hotel III, LLC (“BOH3”) holds 29 units (or 100%) of Series 2 preferred membership units in the Debtor.

3. Since at least 2014, the Debtor has been developing a full-service, seven-story hotel with 178 rooms in the City of Buena Park, County of Orange, State of California (the “Hotel”), which upon completion will include conference rooms, an executive lounge, fitness center, restaurant, bars, and cleaning services. The Hotel is part of a larger 12.8-acre mixed-use development project (the “Master Development”), which includes a 400,000 square-foot retail center and a 50,000 square-foot seven-story office building which were completed in 2016. The Debtor does not own the real property on which the Hotel is being constructed (which is located at the southeast corner of the Master Development), but is a lessee pursuant to a 99-year ground lease for such real property (the “Ground Lease”) with the Debtor’s affiliate, The Source at Beach, LLC.

4. Construction of the Hotel began in 2016. To finance the construction of the Hotel, on May 24, 2016, the Debtor obtained a \$29.5 million construction loan (the “Loan”) from Evertrust Bank (“Evertrust”) as well as financing by three tranches of EB-5 investments totaling

1 \$35.5 million, including the EB-5 investment by BOH3 in the sum of \$14,500,000, for which
2 BOH3 acquired preferred membership units in the Debtor. The Debtor's obligations under the
3 Loan are secured by liens against substantially all of the Debtor's assets, including the Hotel and
4 the Debtor's leasehold interest in the real property that is the subject of the Ground Lease (the
5 "Leasehold Interest"), pursuant to the parties' Commercial Security Agreement and the
6 Construction Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing
7 (Leasehold) recorded in the County of Orange on June 3, 2016 as Document No. 2016000252446
8 (the "Deed of Trust").¹ The original maturity date for the Loan was December 1, 2017, but was
9 extended to November 1, 2019 pursuant to written extension agreements entered into by the
10 parties.

11 5. Through October 2019, approximately 85% of the Hotel construction had been
12 completed, including: substantial completion of the core and shell, exterior painting, porte cochère,
13 street lighting, ceiling framing, kitchen framing and glass block installation, food storages, all glass
14 storefronts, electrical wiring and switchgear, guestroom flooring, ceiling fixtures, pool bar canopy
15 structure, deck drains, window washing system, roof membrane, roof ductwork and HVAC
16 vibration installation; nearly complete installation of bathroom fixtures (95%), acoustic ceiling
17 system (80%), HVAC electrical connections (90%), piping for HVAC and plumbing equipment
18 (95%), and rooftop ductwork (99%). In addition, substantial materials have been procured and/or
19 fabricated and are ready for installation pending completion of other items, such as first and second
20 floor flooring, corridor carpeting, millwork (wall and ceiling panels, pool bar), passenger elevators,
21 fire sprinklers, egress and accent lighting, pool equipment, guest room doors, locks and closures,
22 bathroom fixtures, and rooftop HVAC equipment.

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¹ In accordance with Rule 201 of the Federal Rules of Evidence, the Debtor requests that
25 the Court take judicial notice of the Declaration of Donald Chae filed in support of (and
26 annexed to) that certain *Notice Of Motion And Motion For Entry Of An Order: (A) Requiring
27 Turnover Of Estate Cash By Evertrust Bank; (B) Authorizing Debtor To Use Cash Collateral;
And (C) Authorizing Debtor To Obtain Post-Petition Financing From M+D Properties On An
Unsecured Basis* filed by the Debtor on March 12, 2021 [Doc. No. 21] (the "First
CC/Financing Motion Declaration"), specifically Exhibit "C" and Exhibit "F" thereto, which
28 include copies of the pre-petition loan and collateral documents with Evertrust.

1 6. The approximately 15% of the Hotel construction which remains outstanding
2 consists of mostly “finish work” such as the installation of flooring and carpeting, lighting,
3 appliances, trade fixtures, furniture, furnishings and equipment already purchased by the Debtor
4 (collectively, “FF&E”).

5 **B. Events Leading To Debtor’s Bankruptcy Filing.**

6 7. In late 2019, Evertrust refused to issue the remaining \$4 million of the Loan,
7 claiming a cost overrun on the construction of the Hotel. As a result of Evertrust’s refusal to
8 provide the final \$4 million of the Loan, the Debtor was forced to cease construction activities.
9 However, the Debtor believes strongly that, had Evertrust funded the final \$4 million as expected,
10 construction of the Hotel would have been completed, as the Debtor believes that its contractors
11 would have carried fifty percent of the cost overrun and the Debtor and its affiliates would have
12 covered the remaining fifty percent of the overrun.

13 8. When Evertrust refused to issue the remaining \$4 million of the Loan, the Debtor
14 immediately and actively sought to refinance the Loan. The Debtor began discussions with a new
15 lender named Hall Structured Finance (“Hall”) in the fall of 2019 and was ultimately able to reach
16 an agreement with Hall for refinancing in the total sum of \$42 million. During the course of the
17 Debtor’s refinancing discussions with Hall, the Debtor kept Evertrust apprised of all developments,
18 and even provided Evertrust with a copy of the loan commitment letter from Hall in early 2020.
19 The Debtor and Hall were on the verge of closing on the refinancing, with a target closing date of
20 March 20, 2020, when local, county, and State officials issued lockdown orders as a result of the
21 COVID-19 pandemic. At that point, Hall put an indefinite hold on the closing of the refinancing
22 with the Debtor.

23 9. As a result, the Debtor went back to Evertrust and, between March 2020 and
24 December 2020, engaged in active forbearance negotiations with Evertrust to obtain a further
25 extension of the Loan maturity date so that the Hotel could recover from the effects of the COVID-
26 19 pandemic, and the Debtor could obtain refinancing or additional construction financing and
27 ultimately recommence construction of the Hotel.

1 10. In the summer of 2020, while the Debtor and Evertrust were still engaged in
2 forbearance negotiations, Evertrust commenced litigation against the guarantors of the Loan,
3 Donald Chae and Min Chae, and recorded a Notice of Default against the Hotel.

4 11. Subsequently, in December 2020, Shady Bird purchased Evertrust's interests in the
5 Loan at a significant discount, for a reported purchase price of approximately \$19 million. While
6 the Debtor engaged in discussions and negotiations with Shady Bird to attempt to reach a
7 consensual resolution of the parties' disputes, such discussions and negotiations were ultimately
8 unsuccessful.

9 12. On February 8, 2021, Shady Bird filed a complaint against the Debtor in the
10 Superior Court of the State of California for the County of Orange ("Superior Court") for (i)
11 specific performance and appointment of a receiver, and (ii) waste, thereby commencing the
12 Superior Court action bearing the case number 30-2021-01183489-CU-OR-CJC (the "State Court
13 Action"). Shady Bird also took steps to immediately foreclose on the Hotel and issued a Notice of
14 a Trustee's Sale for the Hotel to be held on March 1, 2021.

15 13. Shortly after filing its complaint to initiate the State Court Action, Shady Bird filed
16 an ex parte application for an order appointing a receiver and other related relief. On February 17,
17 2021, the Superior Court entered an order in the State Court Action appointing Bellann R. Raile as
18 Receiver to, among other things, take possession of the Hotel and all goods, furniture, fixtures, and
19 equipment attached and/or related to the Hotel.

20 14. As a result of the foregoing, the Debtor sought chapter 11 bankruptcy protection on
21 the Petition Date (*i.e.*, February 26, 2021) in order to prevent the impending foreclosure of the
22 Hotel, to regain possession of the Hotel and related assets and obtain refinancing or investments to
23 enable the Debtor to complete construction of the Hotel, and to obtain a reasonable opportunity to
24 restructure its financial affairs and repay its debts in an orderly fashion.

25 **C. Description Of The Debtor's Assets And Debts.**

26 15. The Debtor's primary assets consist of the Hotel, the Leasehold Interest, and a
27 substantial amount of FF&E. The Debtor believes that the current value of the Hotel in "as is"

1 condition is at least \$50,000,000 and that its fair market value upon completion will be at least
2 \$60,000,000.² The Debtor also believes that the total value of the FF&E (calculated at cost,
3 excluding fabrication labor costs) is approximately \$2,700,000.

4 16. The Debtor's primary secured creditor is Shady Bird Lending, LLC ("Shady Bird"),
5 who acquired the Loan from Evertrust in December, 2020. Shady Bird contends that the
6 outstanding balance of the Loan was \$30,948,839.27 as of March 1, 2021. As noted above, the
7 Debtor's obligations under the Loan are secured by liens against substantially all of the Debtor's
8 assets, including the Hotel, the Leasehold Interest, and the FF&E.

9 17. There are a number of subcontractors that have recorded mechanics' liens against
10 the Debtor and/or Hotel. As reflected in the Debtor's Schedules of Assets and Liabilities filed in
11 this case [Doc. No. 32], the Debtor believes that the total amount of the mechanics' liens recorded
12 against the Debtor and/or Hotel is approximately \$2,900,000.³ However, some of these recorded
13 mechanics' liens appear to have expired or have not been properly perfected, or are otherwise
14 disputed by the Debtor. While the holders of these mechanics' liens may hold valid and properly
15 perfected liens against the Hotel and the Debtor's Leasehold Interest, they have not filed UCC-1
16 financing statements against the Debtor and therefore do not hold valid, properly perfected liens
17 against the Debtor's cash.

18 18. The Debtor also received two tranches of EB-5 loans from Beach Orangethorpe
19 Hotel, LLC and Beach Orangethorpe Hotel II, LLC (together, the "EB-5 Lenders," or individually,
20 an "EB-5 Lender"). The Debtor's obligations under the loans from the EB-5 Lenders, in the total

22 ² HVS Consulting & Valuation previously prepared an appraisal report for the Hotel, which
23 reflected an "as is" value of \$40,900,000 for the Hotel as of October 14, 2019. In accordance
24 with Rule 201 of the Federal Rules of Evidence, the Debtor requests that the Court take judicial
25 notice of the Declaration of Donald Chae in support of that certain *Opposition To Motion Of
Shady Bird Lending, LLC For Order Excusing State Court Receiver From Turnover Of Assets
Pursuant To 11 U.S.C. § 543* [Doc. No. 65], specifically Exhibit "4" thereto, which includes a
true and correct copy of the foregoing appraisal report.

26 ³ In accordance with Rule 201 of the Federal Rules of Evidence, the Debtor requests that
27 the Court take judicial notice of the Declaration of Donald Chae in support of the First
28 CC/Financing Motion, specifically Exhibit "G" thereto, which includes a list of asserted
mechanic's liens prepared by the Debtor as well as a preliminary title report for the Hotel dated
December 22, 2020.

1 principal sum of \$21,500,000, are secured by junior liens against the Hotel and the Leasehold
2 Interest.⁴ Neither of the EB-5 Lenders has filed a UCC-1 financing statement against the Debtor
3 and therefore neither of the EB-5 Lenders holds a valid, properly perfected lien against the
4 Debtor's cash.

5 19. There are no parties other than Shady Bird (as the successor-in-interest to
6 Evertrust) that holds a properly perfected lien against the Debtor's cash.⁵

7 20. The Debtor is also advised that Hirsch Bedner Associates Procurement
8 Procurement and/or FDH Warehouse (together, the "Warehouse"), which is currently storing at
9 least one container of FF&E belonging to the Debtor with an estimated aggregate market value
10 of at least \$100,000, asserts a warehouseman's lien against the stored FF&E. The Debtor is
11 advised that the outstanding balance of the storage fees owed to the Warehouse is \$8,285.42,
12 with an additional \$637.34 to accrue on June 7, 2021, for a total of \$8,922.76. The Warehouse
13 has advised the Debtor that it will seek to dispose of the Debtor's stored FF&E if the Debtor does
14 not promptly pay the accrued storage fees.

15 21. In addition to the foregoing secured debts, the Debtor believes it has general
16 unsecured debts totaling approximately \$2,150,000.

17 **D. Post-Petition Cash Collateral Use And Case Administration.**

18 22. On March 12, 2021, the Debtor filed the First CC/Financing Motion, pursuant to
19 which the Debtor sought the entry of a Court order (i) requiring Evertrust to turn over and deliver
20 to the Debtor cash held in the Debtor's pre-petition bank accounts at Evertrust; (ii) authorizing the
21 Debtor to use cash collateral in accordance with the Debtor's initial 13-week operating budget (the
22 "Initial Budget"); and (iii) authorizing the Debtor to obtain post-petition unsecured financing up to
23

24 ⁴ In accordance with Rule 201 of the Federal Rules of Evidence, the Debtor requests that
25 the Court take judicial notice of the Declaration of Donald Chae in support of the First
CC/Financing Motion, specifically Exhibit "H" thereto, which includes copies of the Deeds of
Trust recorded against the Hotel by the two EB-5 Lenders.

26 ⁵ In accordance with Rule 201 of the Federal Rules of Evidence, the Debtor requests that
27 the Court take judicial notice of the Declaration of Juliet Y. Oh filed in support of First
CC/Financing Motion, specifically Exhibit "F" thereto, which includes the results of a UCC
search for the Debtor.

1 \$100,000 (the “Initial DIP Loan”) from the Debtor’s manager, M+D. The Initial Budget provided
2 for the payment of expenses critical to the maintenance and preservation of the Hotel, including
3 insurance premiums, utility expenses, post-petition utility deposits, and real property taxes.

4 23. On March 23, 2021, the Court entered an order granting the CC/Financing Motion
5 on an interim basis, pending a final hearing scheduled on May 6, 2021, subject to certain minor
6 modifications agreed to by the Debtor and set forth in such order [Doc. No. 46] (the “Interim
7 Order”). On May 12, 2021, the Court entered a final order granting the CC/Financing Motion
8 [Doc. No. 118] (the “Final Order”).

9 24. The Debtor has paid the expenses set forth in the Initial Budget, including secured
10 real property taxes which came due in April, 2021, in accordance with the terms of the Interim
11 Order and Final Order. The Debtor received Initial DIP Loan advances totaling \$61,424.91 from
12 M+D during the period covered by the Initial Budget.

13 25. As noted above, the Receiver was appointed by the Superior Court shortly before
14 the Petition Date. On March 25, 2021, Shady Bird filed that certain *Motion Of Shady Bird*
15 *Lending, LLC For Order Excusing State Court Receiver From Turnover Of Assets Pursuant To 11*
16 *U.S.C. § 543* [Doc. No. 51] (the “Receiver Motion”) in the Debtor’s bankruptcy case, pursuant to
17 which Shady Bird sought the entry of a Court order excusing the Receiver from complying with
18 the requirements of 11 U.S.C. § 543, specifically, the requirement to deliver to the Debtor all
19 property belonging to the Debtor over which the Receiver currently has possession, custody or
20 control. On April 1, 2021, the Debtor filed its opposition to the Receiver Motion [Doc. No. 65]
21 and, on April 8, 2021, Shady Bird filed its reply to the Debtor’s opposition to the Receiver Motion
22 [Doc. No. 72].

23 26. At the hearing on the Receiver Motion held on April 15, 2021, the Court granted
24 the Receiver Motion on an interim basis only, to permit the Receiver to make certain repairs and
25 perform certain work on the Hotel with funds up to \$200,000 “gifted” to the Debtor’s estate by
26 Shady Bird (the “Gifted Advances”), pending a continued hearing on the Receiver Motion to be
27 held on June 3, 2021.

28

1 27. The Debtor has been, and continues to be, engaged in active discussions with
2 prospective lenders and investors regarding the terms for debtor-in-possession and/or exit
3 financing, which will provide the Debtor with the funding necessary to complete the construction
4 of the Hotel, service debt, operate the Hotel until operations can be stabilized, and potentially fund
5 a feasible plan of reorganization in the Debtor's case. The Debtor believes that it can successfully
6 complete the construction of the Hotel and satisfy valid mechanic's liens recorded against the
7 Hotel if the Debtor obtains additional financing of approximately \$12,000,000 - \$16,000,000. The
8 Debtor also believes that the construction of the Hotel can be completed and a certificate of
9 occupancy obtained within 9-12 months from the date of restarting construction. If the Debtor
10 ultimately proceeds with debtor-in-possession financing (instead of exit financing), the Debtor will
11 file a motion for Court approval of such financing as soon as it is in a position to do so. If the
12 Debtor proceeds with exit financing, the Debtor will likely propose a plan of reorganization, in
13 conjunction with its proposed lender and plan supporter, which provides for the restructuring
14 and/or repayment of the Debtor's secured debt, and provides for a recovery to the Debtor's general
15 unsecured creditors who would otherwise receive nothing.

16 28. In addition, and on a parallel path to the Debtor's efforts to obtain debtor-in-
17 possession and/or exit financing to propose a plan of reorganization, the Debtor is also currently
18 evaluating a process for marketing and selling the Hotel through a Section 363 sale. The Debtor
19 intends to discuss such marketing and sale process with Shady Bird in the hopes of reaching an
20 agreement regarding such process.

21 **E. The Need For Continued Use Of Cash Collateral And Additional Post-Petition**
22 **Financing.**

23 29. As reflected in the Debtor's proposed operating budget covering the
24 approximately four month period from May 29, 2021 through and including October 1, 2021 (the
25 "Budget"), a true and correct copy of which is attached as Exhibit "1" to the Declaration of
26 Donald Chae annexed hereto (the "Chae Declaration"), the Debtor requires the continued use of
27 its cash to pay expenses which are critical to the maintenance and preservation of the Hotel, such
28

1 as utility expenses and insurance premiums, as well as all quarterly fees payable to the Office of
2 the United States Trustee, and all expenses payable to the Clerk of the Bankruptcy Court. The
3 Debtor also seeks authority to deviate from the line items contained in the Budget by not more
4 than 10%, on both a line item and aggregate basis, with any unused portions to be carried over
5 into the following week(s), which is consistent with the variances approved in the Interim Order
6 and Final Order.

7 30. The Debtor must be able to use its cash, in accordance with the Budget, to pay
8 expenses which are critical to the maintenance and preservation of the Hotel. If the Debtor does
9 not obtain authority to use its cash collateral, the Debtor's estate will suffer potentially
10 irreparable harm, including, without limitation, the termination of utility services at the Hotel and
11 the termination of insurance coverage for the Hotel, which in turn will jeopardize the value of the
12 Hotel and the FF&E which are maintained at the Hotel.

13 31. In the event that the Receiver Motion is denied at the continued hearing on June 3,
14 2021, and the Receiver is required to turn over possession and control of the Debtor's assets
15 (including the Hotel) to the Debtor, the Debtor will need to spend cash to secure, maintain, and if
16 appropriate make repairs to the Hotel. Accordingly, the Budget provides for the payment of
17 expenses necessary to secure, maintain, and make any appropriate repairs to the Hotel, in the
18 estimated sum of \$5,000 every two weeks.

19 32. In addition, the Budget provides for the payment of the outstanding balance of the
20 storage fees owed by the Debtor to the Warehouse (which the Debtor estimates will total almost
21 \$9,000 by mid-June, 2021 and for which the Warehouse has asserted a warehouseman's lien), to
22 secure the release of the FF&E that is currently being stored at the Warehouse.

23 33. As reflected in the Budget, the Debtor's current cash is not sufficient to pay all of
24 the expenses set forth in the Budget, including those critical expenses required to be paid to
25 secure, maintain and preserve the Hotel. The Debtor therefore requires post-petition funding to
26 pay such expenses.

27 34. Fortunately, M+D (the Debtor's non-member Manager) has agreed to provide the
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1 Debtor with post-petition financing in an amount up to \$100,000 on a general unsecured basis
2 and on an as-needed basis, subject to the discretion of M+D (the “DIP Loan”). The DIP Loan
3 has been offered by M+D on an interest-free basis. Any advance made to the Debtor by M+D
4 shall be deemed an allowed general unsecured claim against the Debtor’s bankruptcy estate
5 pursuant to 11 U.S.C. § 364(b).

6 35. As reflected by the Budget, the Debtor believes that the proposed DIP Loan from
7 M+D will provide the Debtor with sufficient funds to pay all of the expenses reflected in the
8 Budget during the period covered by the Budget.

9 **II.**

10 **DISCUSSION**

11 **A. The Debtor Should Be Authorized To Use Cash Collateral.**

12 The Debtor’s use of property of its bankruptcy estate is governed by Section 363 of the
13 Bankruptcy Code. Section 363(c)(l) provides in pertinent part:

14 If the business of the debtor is authorized to be operated under
15 section. . .1108. . . of this title and unless the court orders otherwise,
16 the trustee may enter into transactions, including the sale or lease of
17 property of the estate, in the ordinary course of business, without
notice or a hearing, and may use property of the estate in the ordinary
course of business without notice or a hearing.

18 11 U.S.C. § 363(c)(l).

19 A debtor in possession has all of the rights and powers of a trustee with respect to
20 property of the estate, including the right to use property of the estate in compliance with Section
21 363. *See* 11 U.S.C. §1107(a).

22 “Cash collateral” is defined as “cash, negotiable instruments, documents of title,
23 securities, deposit accounts or other cash equivalents in which the estate and an entity other than
24 the estate have an interest. . . .” 11 U.S.C. §363(a). Section 363(c)(2) establishes a special
25 requirement with respect to “cash collateral,” providing that the trustee or debtor in possession
26 may use “cash collateral” under subsection (c)(l) if:

27 (A) each entity that has an interest in such cash collateral consents; or
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(B) the court, after notice and a hearing, authorizes such use, sale or lease in accordance with the provisions of this section.

See 11 U.S.C. § 363(c)(2)(A) and (B).

It is well settled that it is appropriate for a Chapter 11 debtor to use cash collateral for the purpose of maintaining and operating its property. 11 U.S.C. § 363(c)(2)(B); *In re Oak Glen R-Vee*, 8 B.R. 213, 216 (Bankr. C.D. Cal. 1981); *In re Tucson Industrial Partners*, 129 B.R. 614 (9th Cir. BAP 1991).

The critical expenses that the Debtor must be able to pay to maintain and preserve the Hotel and the Debtor's other assets are set forth in the Budget attached as Exhibit "1" to the Chase Declaration. The Debtor must be able to use its cash collateral to pay such expenses, which include utility expenses, insurance premiums, security and maintenance expenses, and secured storage fees which must be paid to obtain the release of certain of the Debtor's FF&E. The Debtor's inability to pay such expenses would result in the cessation of utility services to the Hotel, the termination of insurance coverage for the Hotel and related assets, potential disrepair to the Hotel, and the potential dissipation of certain of the Debtor's FF&E, thereby causing irreparable harm to the Debtor's bankruptcy estate. The preservation and maximization of the Debtor's assets are of the utmost significance and will facilitate a successful reorganization of the Debtor through this Chapter 11 case.

In addition to the expenses set forth in the Budget, the Debtor seeks authority to use cash collateral to pay all quarterly fees owing to the Office of the United States Trustee and all expenses owing to the Clerk of the Bankruptcy Court. To provide the Debtor with reasonable flexibility in the event that the actual amounts of the Debtor's expenses are higher than projected, the Debtor also seeks authority to deviate from the line items contained in the Budget by not more than 10%, on both a line item and aggregate basis, with any unused portions to be carried over into the following week(s).

Pursuant to Section 363(c)(2), the Court may authorize a debtor in possession to use a secured creditor's cash collateral if the secured creditor consents to the use of cash collateral or is

1 adequately protected. *In re Mellor*, 734 F.2d 1396, 1400 (9th Cir. 1984). See also *In re*
2 *O'Connor*, 808 F.2d 1393, 1398 (10th Cir. 1987); *In re McCombs Properties VI, Ltd.*, 88 B.R.
3 261, 265 (Bankr. C.D. Cal. 1988) (“McCombs”).

4 Even if Shady Bird, which is the only creditor that holds a valid and properly perfected
5 lien in the Debtor’s cash, does not consent to the Debtor’s use of cash collateral, the Debtor
6 submits that the value of Shady Bird’s interests in the Debtor’s cash and other assets will be
7 adequately protected by a substantial equity cushion.

8 Pursuant to the Supreme Court case of *United Savings Association v. Timbers of Inwood*
9 *Forest Associates*, 108 S.Ct. 626, 629 (1988) (“Timbers”) and subsequent case law, the property
10 interest that a debtor must adequately protect pursuant to Sections 361(1) and (2) of the
11 Bankruptcy Code is only the value of the lien that secures the creditor’s claim. *Timbers*, 108
12 S.Ct. at 630. See also *McCombs*, *supra*, at 266. Section 506(a) “limit[s] the secured status of a
13 creditor (*i.e.*, the secured creditor’s claim) to the lesser of the [allowed amount of the] claim or
14 the value of the collateral.” *McCombs* at 266.

15 The Ninth Circuit made clear in *Mellor*, *Id.* at 1401, that an equity cushion of 20% is
16 considered clear adequate protection of a secured creditor’s interest in cash collateral. See also
17 *In re McGowan*, 6 B.R. 241, 243 (Bankr. E.D. Pa. 1980) (holding a 10% cushion is sufficient to
18 be adequate protection); *In re Rogers Development Corp.*, 2 B.R. 679, 685 (Bankr. E.D. Vir.
19 1980) (court decided that an equity cushion of approximately 15% to 20% was sufficient
20 adequate protection to the creditor, even though the debtors had no equity in the property).

21 Furthermore, in determining whether a secured creditor has equity in property, the Court
22 should consider the “entire security package” not just a portion thereof. *In re Opelika*
23 *Manufacturing Corporation*, 66 B.R. 444, 447-48 (Bankr. N.D. Ill. 1986).

24 Both as of the Petition Date and the date of the filing of this Motion, the Debtor was (and
25 is) holding the following assets: (i) the Hotel, which was appraised for an “as is” value of
26 \$40,900,000 in October, 2019; and (ii) FF&E with an estimated value (at cost, excluding
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1 fabrication labor costs) of \$2,700,000. Based on the foregoing, the current aggregate value of
2 the Debtor's assets is estimated to be \$43,600,000.

3 Shady Bird contends in its motion for relief from the automatic stay filed in the Debtor's
4 bankruptcy case [Doc. No. 62] that the outstanding balance of the Loan was \$30,948,839.27 as
5 of March 1, 2021. Given the aggregate value of the Debtor's assets (*i.e.*, approximately
6 \$43,600,000), and the total estimated amount currently owed to Shady Bird (*i.e.*, approximately
7 \$31,000,000), Shady Bird is adequately protected by an equity cushion of more than 40%, which
8 far exceeds the 20% range that the Ninth Circuit has indicated constitutes clear adequate
9 protection of a secured creditor's interest in cash collateral.

10 As additional protection for the Debtor's use of cash collateral, the Debtor proposes to
11 provide Shady Bird with a valid, enforceable, non-avoidable and fully perfected first priority
12 replacement lien on, and security interest in, the Debtor's post-petition assets, including cash, to
13 the extent of any diminution in value of Shady Bird's interest in the Debtor's pre-petition
14 collateral, and to the same extent, validity, and priority of Shady Bird's pre-petition lien. Such
15 replacement lien will provide Shady Bird with further adequate protection.

16 Given the foregoing forms of adequate protection being provided to Shady Bird for the
17 Debtor's use of cash collateral, the Debtor submits that the requirements of Bankruptcy Code
18 Section 363(c)(2) have been satisfied and that the Debtor should be authorized to use cash
19 collateral in accordance with the terms set forth in this Motion.

20 **B. The Debtor Should Be Authorized To Obtain The Proposed DIP Loan From M+D**
21 **To Cover Any Shortfalls In The Budget.**

22 Pursuant to Section 364(b) of the Bankruptcy Code, the Debtor requests authority to
23 obtain the proposed DIP Loan from its Manager, M+D, on a general unsecured basis, in a sum up
24 to \$80,000, as necessary and at the discretion of M+D, to cover any shortfalls in the Budget.

25 Section 364 of the Bankruptcy Code is structured with an escalating series of
26 inducements which a debtor in possession may offer to attract credit during the post-petition
27 period. *In re Photo Promotion Associates, Inc.*, 87 B.R. 835, 839 (Bankr. S.D.N.Y. 1988), *aff'd*,

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1 881 F.2d 6 (2d. Cir. 1989). Therefore, where a trustee or debtor in possession cannot otherwise
2 obtain unsecured post-petition credit, such credit may be obtained under certain carefully
3 proscribed conditions. *In re T.M. Sweeney & Sons LTL Services, Inc.*, 131 B.R. 984, 989
4 (Bankr.N.D.Ill.1991). For example, if creditors are unwilling to extend unsecured credit to a
5 debtor in possession, further inducements are offered, with court approval after notice and a
6 hearing, including, without limitation, liens equal to or senior to existing liens on encumbered
7 property in accordance with 11 U.S.C. § 364(d). *In re Photo Promotion Associates, Inc.*, 87 B.R.
8 at 839.

9 Section 364(c) of the Bankruptcy Code also enumerates certain incentives that a court
10 may grant to post-petition lenders. The Section 364(c) list, however, is not exhaustive. Courts
11 frequently have authorized the use of inducements not specified in the statute. See, e.g., *In re*
12 *Ellingsen MacLean Oil Co.*, 834 F.2d 599 (6th Cir. 1987) (affirming financing order which
13 prohibited any challenges to the validity of already existing liens); *In re Defender Drug Stores*,
14 126 B.R. 76 (Bankr. D. Ariz. 1991) (authorizing enhancement fee to post-petition lender), aff'd
15 145 B.R. 312, 316 (Bankr. 9th Cir. 1992) ("[b]ankruptcy courts . . . have regularly authorized
16 postpetition financial arrangements containing lender incentives beyond the explicit priorities
17 and liens specified in section 364"); *In re Antico Mfg. Co.*, 31 B.R. 103 (Bankr. E.D.N.Y. 1983)
18 (authorizing lien on pre-petition collateral to secure post-petition indebtedness).

19 Two factors courts consider in determining whether to authorize post-petition financing
20 which contemplates the granting of a security interest in favor of the lender are (1) whether the
21 debtor is unable to obtain unsecured credit per 11 U.S.C. § 364(b), i.e., by allowing a lender only
22 an administrative claim per 11 U.S.C. § 364(b)(1)(A); and (2) whether the terms of the
23 transaction are fair, reasonable and adequate, given the circumstances of the debtor-borrower and
24 the proposed lender. *In re Crouse Group, Inc.*, 71 B.R. 544, 549 (Bankr. E.D.Pa. 1987); see also
25 *In re Aqua Assoc.*, 123 B.R. 192, 195 (Bankr. E.D.Pa. 1991).

26 M+D, the Debtor's non-member Manager, has agreed to provide the DIP Loan to the
27 Debtor on a general unsecured basis, so the Debtor does not need to grant any liens to secure
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1 such DIP Loan. While 11 U.S.C. § 364(b) permits a lender to be allowed an administrative
2 claim for unsecured post-petition financing, M+D has agreed to assert only a general unsecured
3 claim (rather than an administrative claim) against the Debtor's estate for the amount of the DIP
4 Loan.

5 While in determining whether to approve such a transaction, a Court is authorized to act
6 in its informed discretion, *In re Ames Department Stores, Inc.*, 115 B.R. 34, 37 (Bankr. S.D.N.Y.
7 1990), the Court should give broad deference to the business decision of a Chapter 11 debtor,
8 particularly with respect to a debtor's business judgment regarding the need for and proposed use
9 of funds. *Richmond Leasing Co. v. Capital Bank N.A.*, 762 F.2d 1303, 1311 (5th Cir. 1985). As
10 the Court noted in *In re Ames Dept. Stores Inc., supra*, "the court's discretion under section 364
11 is to be utilized on the grounds that permit the reasonable business judgment [of the Debtor] to
12 be exercised . . ." *In re Ames Department Stores, Inc.*, 115 B.R. at 40.

13 The Debtor, in the exercise of its business judgment, has concluded that obtaining the
14 proposed DIP Loan from its affiliate, M+D, is in the clear best interests of the Debtor's estate
15 because, without such funds, the Debtor will be unable to pay the expenses set forth in the
16 Budget, which are critical to the maintenance and preservation of the Hotel and FF&E. The
17 Debtor believes that it is fortunate that M+D has agreed to provide the DIP Loan to the Debtor
18 on a general unsecured basis under the circumstances.

19 The Debtor respectfully submits that (i) the terms and conditions of the DIP Loan are fair
20 and reasonable, reflect the Debtor's exercise of prudent business judgment consistent with its
21 fiduciary duty and are supported by reasonably equivalent value and fair consideration, (ii) the
22 DIP Loan has been negotiated in good faith between the Debtor and M+D, and (iii) any DIP
23 Loan advances to be made to the Debtor by M+D will be made in "good faith" within the
24 meaning of 11 U.S.C. § 364(e).

25 In the absence of the proposed DIP Loan, the Debtor's estate would suffer irreparable
26 harm, including, without limitation, damage to the Hotel (which is the Debtor's primary asset)
27 due to the Debtor's inability to pay expenses critical to the maintenance and preservation of the
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1 Hotel. Such harm would, in turn, negatively impact the Debtor's ability to successfully
2 reorganize in this case. The Debtor submits that the preservation and maintenance of the Hotel
3 and the Debtor's other assets are critical to a successful restructuring in this case.

4 **C. The Debtor Has Satisfied The Procedural Requirements Regarding Approval Of**
5 **The Proposed DIP Loan.**

6 Rule 4001(c) of the Federal Rules of Bankruptcy Procedure ("Bankruptcy Rules") sets
7 forth procedural requirements for obtaining post-petition financing. There are three general
8 procedural requirements. The Debtor submits that it has complied with these procedural
9 requirements. First, the Motion must contain a copy of any financing agreement and the
10 proposed form of order granting the Motion. There is no written financing agreement between
11 the Debtor and M+D, so no such agreement has been attached hereto. However, the proposed
12 form of order granting the Motion is attached as Exhibit "2" to the Chae Declaration. Second,
13 the Motion must provide a concise statement of the relief requested, which was done above.
14 Third, the Motion is required to be served on any committee appointed or the twenty largest
15 unsecured creditors if there is no committee, and on such other parties as the Court directs. Here,
16 the Debtor has served a copy of the Motion and all supportive papers upon the Office of the
17 United States Trustee, all known secured creditors, the twenty largest unsecured creditors of the
18 Debtor, and parties requesting special notice. Accordingly, the Motion complies with the
19 requirements of Bankruptcy Rule 4001(c).

20 In addition, in compliance with Bankruptcy Rule 4001(c)(1)(B) and Local Bankruptcy
21 Rule 4001-2, the Debtor has filed concurrently herewith the mandatory Court-approved Form
22 F4001-2 (Statement Regarding Cash Collateral Or Debtor In Possession Financing), which
23 discloses whether the proposed order granting the motion and authorizing the Debtor to obtain
24 the proposed DIP Loan from M+D contains certain provisions of findings of fact. Accordingly,
25 the Motion complies with the procedural requirements of Local Bankruptcy Rule 4001-2.

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III.

CONCLUSION

Based upon all of the foregoing, the Debtor respectfully requests that this Court enter an Order, in substantially the form attached as **Exhibit “2”** to the Chae Declaration annexed hereto:

- 5 (1) granting the Motion;

6 (2) authorizing the Debtor to use cash collateral to (i) pay all of the expenses set forth

7 in the Budget, with authority to deviate from the line items contained in the Budget by up to

8 10%, on both a line item and aggregate basis, with any unused portions to be carried over into

9 the following week(s); and (ii) pay all quarterly fees owing to the Office of the United States

10 Trustee and all expenses owing to the Clerk of the Bankruptcy Court;

11 (3) authorizing the Debtor to obtain the DIP Loan from M+D in an amount up to

12 \$80,000, at the discretion of M+D, to cover any shortfalls in the Debtor's Budget; and

13 (4) granting such further relief as the Court deems just and proper.

Dated: May 19, 2021

THE SOURCE HOTEL, LLC

JULIE OHL

By: _____

RON BENDER
JULIET Y. OH
LEVENE, NEALE, BENDER, YOO
& BRILL L.L.P.

Proposed Attorneys for Chapter 11 Debtor and Debtor-in-Possession

DECLARATION OF DONALD CHAE

I, Donald Chae, hereby declare as follows:

1. I am the Manager and a member of DMC Investment Holdings, LLC (“DMC”), which is a member of The Source Hotel, LLC, a California limited liability company and the debtor and debtor-in-possession herein (the “Debtor”), and I am therefore familiar with the business operations and financial records of the Debtor. I have personal knowledge of the facts set forth below and, if called to testify, I would and could competently testify thereto.

2. I make this declaration in support of that certain *Notice Of Motion And Motion For Entry Of An Order: (A) Authorizing Debtor To Use Cash Collateral; And (B) Authorizing Debtor To Obtain Post-Petition Financing From M+D Properties On An Unsecured Basis* (the “Motion”), to which this declaration is attached. All capitalized terms not specifically defined herein shall have the meanings ascribed to them in the Motion.

A. Background

3. On February 26, 2021 (the “Petition Date”), the Debtor filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. The Debtor is continuing to manage its financial affairs and operate its bankruptcy estate as a debtor-in-possession.

4. The Debtor is a limited liability company that was organized in November, 2012 in the State of California. DMC is a member of the Debtor which holds 100 units (or 100%) of Series 1 membership units in the Debtor. My brother, Min S. Chae, and I are the members and principals of DMC. In addition to the Series 1 membership units held by DMC, an EB-5 investor entity called Beach Orangethorpe Hotel III, LLC (“BOH3”) holds 29 units (or 100%) of Series 2 preferred membership units in the Debtor.

5. Since at least 2014, the Debtor has been developing a full-service, seven-story hotel with 178 rooms in the City of Buena Park, County of Orange, State of California (the “Hotel”), which upon completion will include conference rooms, an executive lounge, fitness center, restaurant, bars, and cleaning services. The Hotel is part of a larger 12.8-acre mixed-use development project (the “Master Development”), which includes a 400,000 square-foot retail

1 center and a 50,000 square-foot seven-story office building which were completed in 2016. The
2 Debtor does not own the real property on which the Hotel is being constructed (which is located at
3 the southeast corner of the Master Development), but is a lessee pursuant to a 99-year ground lease
4 for such real property (the “Ground Lease”) with the Debtor’s affiliate, The Source at Beach, LLC.

5 6. Construction of the Hotel began in 2016. To finance the construction of the Hotel,
6 on May 24, 2016, the Debtor obtained a \$29.5 million construction loan (the “Loan”) from
7 Evertrust Bank (“Evertrust”) as well as financing by three tranches of EB-5 investments totaling
8 \$35.5 million, including the EB-5 investment by BOH3 in the sum of \$14,500,000, for which
9 BOH3 acquired preferred membership units in the Debtor. The Debtor’s obligations under the
10 Loan are secured by liens against substantially all of the Debtor’s assets, including the Hotel and
11 the Debtor’s leasehold interest in the real property that is the subject of the Ground Lease (the
12 “Leasehold Interest”), pursuant to the parties’ Commercial Security Agreement and the
13 Construction Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing
14 (Leasehold) recorded in the County of Orange on June 3, 2016 as Document No. 2016000252446
15 (the “Deed of Trust”). The original maturity date for the Loan was December 1, 2017, but was
16 extended to November 1, 2019 pursuant to written extension agreements entered into by the
17 parties.

18 7. Through October 2019, approximately 85% of the Hotel construction had been
19 completed, including: substantial completion of the core and shell, exterior painting, porte cochère,
20 street lighting, ceiling framing, kitchen framing and glass block installation, food storages, all glass
21 storefronts, electrical wiring and switchgear, guestroom flooring, ceiling fixtures, pool bar canopy
22 structure, deck drains, window washing system, roof membrane, roof ductwork and HVAC
23 vibration installation; nearly complete installation of bathroom fixtures (95%), acoustic ceiling
24 system (80%), HVAC electrical connections (90%), piping for HVAC and plumbing equipment
25 (95%), and rooftop ductwork (99%). In addition, substantial materials have been procured and/or
26 fabricated and are ready for installation pending completion of other items, such as first and second
27 floor flooring, corridor carpeting, millwork (wall and ceiling panels, pool bar), passenger elevators,
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1 fire sprinklers, egress and accent lighting, pool equipment, guest room doors, locks and closures,
2 bathroom fixtures, and rooftop HVAC equipment.

3 8. The approximately 15% of the Hotel construction which remains outstanding
4 consists of mostly “finish work” such as the installation of flooring and carpeting, lighting,
5 appliances, trade fixtures, furniture, furnishings and equipment already purchased by the Debtor
6 (collectively, “FF&E”).

7 **B. Events Leading To Debtor’s Bankruptcy Filing.**

8 9. In late 2019, Evertrust refused to issue the remaining \$4 million of the Loan,
9 claiming a cost overrun on the construction of the Hotel. As a result of Evertrust’s refusal to
10 provide the final \$4 million of the Loan, the Debtor was forced to cease construction activities.
11 However, I believe strongly that, had Evertrust funded the final \$4 million as expected,
12 construction of the Hotel would have been completed, as I believe that the Debtor’s contractors
13 would have carried fifty percent of the cost overrun and the Debtor and its affiliates would have
14 covered the remaining fifty percent of the overrun.

15 10. When Evertrust refused to issue the remaining \$4 million of the Loan, the Debtor
16 immediately and actively sought to refinance the Loan. The Debtor began discussions with a new
17 lender named Hall Structured Finance (“Hall”) in the fall of 2019 and was ultimately able to reach
18 an agreement with Hall for refinancing in the total sum of \$42 million. During the course of the
19 Debtor’s refinancing discussions with Hall, the Debtor kept Evertrust apprised of all developments,
20 and even provided Evertrust with a copy of the loan commitment letter from Hall in early 2020.
21 The Debtor and Hall were on the verge of closing on the refinancing, with a target closing date of
22 March 20, 2020, when local, county, and State officials issued lockdown orders as a result of the
23 COVID-19 pandemic. At that point, Hall put an indefinite hold on the closing of the refinancing
24 with the Debtor.

25 11. As a result, the Debtor went back to Evertrust and, between March 2020 and
26 December 2020, engaged in active forbearance negotiations with Evertrust to obtain a further
27 extension of the Loan maturity date so that the Hotel could recover from the effects of the COVID-
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19 pandemic, and the Debtor could obtain refinancing or additional construction financing and
ultimately recommence construction of the Hotel.

12. In the summer of 2020, while the Debtor and Evertrust were still engaged in
forbearance negotiations, Evertrust commenced litigation against the guarantors of the Loan, my
brother, Min Chae, and me, and recorded a Notice of Default against the Hotel.

13. Subsequently, in December 2020, Shady Bird purchased Evertrust's interests in the
Loan at a significant discount, for a reported purchase price of approximately \$19 million. While
the Debtor engaged in discussions and negotiations with Shady Bird to attempt to reach a
consensual resolution of the parties' disputes, such discussions and negotiations were ultimately
unsuccessful.

14. On February 8, 2021, Shady Bird filed a complaint against the Debtor in the
Superior Court of the State of California for the County of Orange ("Superior Court") for (i)
specific performance and appointment of a receiver, and (ii) waste, thereby commencing the
Superior Court action bearing the case number 30-2021-01183489-CU-OR-CJC (the "State Court
Action"). Shady Bird also took steps to immediately foreclose on the Hotel and issued a Notice of
a Trustee's Sale for the Hotel to be held on March 1, 2021.

15. Shortly after filing its complaint to initiate the State Court Action, Shady Bird filed
an ex parte application for an order appointing a receiver and other related relief. On February 17,
2021, the Superior Court entered an order in the State Court Action appointing Bellann R. Raile as
Receiver to, among other things, take possession of the Hotel and all goods, furniture, fixtures, and
equipment attached and/or related to the Hotel.

16. As a result of the foregoing, the Debtor sought chapter 11 bankruptcy protection on
the Petition Date (*i.e.*, February 26, 2021) in order to prevent the impending foreclosure of the
Hotel, to regain possession of the Hotel and related assets and obtain refinancing or investments to
enable the Debtor to complete construction of the Hotel, and to obtain a reasonable opportunity to
restructure its financial affairs and repay its debts in an orderly fashion.

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1 **C. Description Of The Debtor's Assets And Debts.**

2 17. The Debtor's primary assets consist of the Hotel, the Leasehold Interest, and a
3 substantial amount of FF&E. Based on a prior appraisal of the Hotel performed by HVS
4 Consulting & Valuation, which resulted in an "as is" value of \$40,900,000 as of October 14, 2019,
5 and based upon my decades of commercial real estate experience and knowledge, I believe that the
6 current value of the Hotel in "as is" condition is at least \$50,000,000 and that its fair market value
7 upon completion will be at least \$60,000,000. I also believe that the total value of the Debtor's
8 FF&E (calculated at cost, excluding fabrication labor costs) is approximately \$2,700,000.

9 18. The Debtor's primary secured creditor is Shady Bird Lending, LLC ("Shady Bird"),
10 who acquired the Loan from Evertrust in December, 2020. I am advised and believe that Shady
11 Bird contends that the outstanding balance of the Loan was \$30,948,839.27 as of March 1, 2021.

12 19. To the best of my knowledge, there are a number of subcontractors that have
13 recorded mechanics' liens against the Debtor and/or Hotel. As reflected in the Debtor's Schedules
14 of Assets and Liabilities filed in its case, I believe that the total amount of the mechanics' liens
15 recorded against the Debtor and/or Hotel is approximately \$2,900,000. However, some of these
16 recorded mechanics' liens appear to have expired or have not been properly perfected, or are
17 otherwise disputed by the Debtor. While the holders of these mechanics' liens may hold valid and
18 properly perfected liens against the Hotel and the Debtor's Leasehold Interest, it is my
19 understanding and believe that they have not filed UCC-1 financing statements against the Debtor
20 and therefore do not hold valid, properly perfected liens against the Debtor's cash.

21 20. The Debtor also received two tranches of EB-5 loans from Beach Orangethorpe
22 Hotel, LLC and Beach Orangethorpe Hotel II, LLC (together, the "EB-5 Lenders," or individually,
23 an "EB-5 Lender"). I am advised and believe that the Debtor's obligations under the loans from the
24 EB-5 Lenders, in the total principal sum of \$21,500,000, are secured by junior liens against the
25 Hotel and the Leasehold Interest. To the best of my knowledge, neither of the EB-5 Lenders has
26 filed a UCC-1 financing statement against the Debtor and therefore neither of the EB-5 Lenders holds
27 a valid, properly perfected lien against the Debtor's cash.
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1 21. To the best of my knowledge, there are no parties other than Shady Bird (as the
2 successor-in-interest to Evertrust) that holds a properly perfected lien against the Debtor's cash.

3 22. The Debtor has been advised that Hirsch Bedner Associates Procurement
4 Procurement and/or FDH Warehouse (together, the "Warehouse"), which is currently storing at
5 least one container of FF&E belonging to the Debtor with an estimated aggregate market value of
6 at least \$100,000, asserts a warehouseman's lien against the stored FF&E. The Debtor has been
7 advised that the outstanding balance of the storage fees owed to the Warehouse is \$8,285.42, with
8 an additional \$637.34 to accrue on June 7, 2021, for a total of \$8,922.76. The Warehouse has
9 advised that it will seek to dispose of the Debtor's stored FF&E if the Debtor does not promptly
10 pay the accrued storage fees.

11 23. In addition to the foregoing secured debts, I believe that the Debtor has general
12 unsecured debts totaling approximately \$2,150,000.

13 **D. Post-Petition Cash Collateral Use And Case Administration.**

14 24. On March 12, 2021, the Debtor filed the First CC/Financing Motion, pursuant to
15 which the Debtor sought the entry of a Court order (i) requiring Evertrust to turn over and deliver
16 to the Debtor cash held in the Debtor's pre-petition bank accounts at Evertrust; (ii) authorizing the
17 Debtor to use cash collateral in accordance with the Debtor's initial 13-week operating budget (the
18 "Initial Budget"); and (iii) authorizing the Debtor to obtain post-petition unsecured financing up to
19 \$100,000 (the "Initial DIP Loan") from the Debtor's manager, M+D. The Initial Budget provided
20 for the payment of expenses critical to the maintenance and preservation of the Hotel, including
21 insurance premiums, utility expenses, post-petition utility deposits, and real property taxes.

22 25. I am advised and believe that, on March 23, 2021, the Court entered an order
23 granting the CC/Financing Motion on an interim basis, pending a final hearing scheduled on May
24 6, 2021, subject to certain minor modifications agreed to by the Debtor and set forth in such order
25 (the "Interim Order"). I am further advised and believe that, on May 12, 2021, the Court entered a
26 final order granting the CC/Financing Motion (the "Final Order").

27

28

1 26. The Debtor has paid the expenses set forth in the Initial Budget, including secured
2 real property taxes which came due in April, 2021, in accordance with the terms of the Interim
3 Order and Final Order. The Debtor received Initial DIP Loan advances totaling \$61,424.91 from
4 M+D during the period covered by the Initial Budget.

5 27. As noted above, the Receiver was appointed by the Superior Court shortly before
6 the Petition Date. On March 25, 2021, Shady Bird filed that certain *Motion Of Shady Bird*
7 *Lending, LLC For Order Excusing State Court Receiver From Turnover Of Assets Pursuant To 11*
8 *U.S.C. § 543* (the “Receiver Motion”) in the Debtor’s bankruptcy case, pursuant to which Shady
9 Bird sought the entry of a Court order excusing the Receiver from complying with the
10 requirements of 11 U.S.C. § 543, specifically, the requirement to deliver to the Debtor all property
11 belonging to the Debtor over which the Receiver currently has possession, custody or control. On
12 April 1, 2021, the Debtor filed its opposition to the Receiver Motion and, on April 8, 2021, Shady
13 Bird filed its reply to the Debtor’s opposition to the Receiver Motion.

14 28. At the hearing on the Receiver Motion held on April 15, 2021, which I attended,
15 the Court granted the Receiver Motion on an interim basis only, to permit the Receiver to make
16 certain repairs and perform certain work on the Hotel with funds up to \$200,000 “gifted” to the
17 Debtor’s estate by Shady Bird (the “Gifted Advances”), pending a continued hearing on the
18 Receiver Motion to be held on June 3, 2021.

19 29. The Debtor has been, and continues to be, engaged in active discussions with
20 prospective lenders and investors regarding the terms for debtor-in-possession and/or exit
21 financing, which will provide the Debtor with the funding necessary to complete the construction
22 of the Hotel, service debt, operate the Hotel until operations can be stabilized, and potentially fund
23 a feasible plan of reorganization in the Debtor’s case. I believe that the Debtor can successfully
24 complete the construction of the Hotel and satisfy valid mechanic’s liens recorded against the
25 Hotel if the Debtor obtains additional financing of approximately \$12,000,000 - \$16,000,000. I
26 also believe that the construction of the Hotel can be completed and a certificate of occupancy
27 obtained within 9-12 months from the date of restarting construction.

28

1 30. If the Debtor ultimately proceeds with debtor-in-possession financing (instead of
2 exit financing), the Debtor will file a motion for Court approval of such financing as soon as it is in
3 a position to do so. If the Debtor proceeds with exit financing, the Debtor will likely propose a
4 plan of reorganization, in conjunction with its proposed lender and plan supporter, which provides
5 for the restructuring and/or repayment of the Debtor's secured debt, and provides for a recovery to
6 the Debtor's general unsecured creditors who would otherwise receive nothing.

7 31. In addition, and on a parallel path to the Debtor's efforts to obtain debtor-in-
8 possession and/or exit financing to propose a plan of reorganization, the Debtor is also currently
9 evaluating a process for marketing and selling the Hotel through a Section 363 sale. The Debtor
10 intends to discuss such marketing and sale process with Shady Bird in the hopes of reaching an
11 agreement regarding such process.

12 **E. The Need For Continued Use Of Cash Collateral And Additional Post-Petition**
13 **Financing.**

14 32. As reflected in the Debtor's proposed operating budget covering the approximately
15 four month period from May 29, 2021 through and including October 1, 2021 (the "Budget"), a
16 true and correct copy of which is attached as Exhibit "1" hereto, the Debtor requires the continued
17 use of its cash to pay expenses which are critical to the maintenance and preservation of the Hotel,
18 such as utility expenses and insurance premiums, as well as all quarterly fees payable to the Office
19 of the United States Trustee, and all expenses payable to the Clerk of the Bankruptcy Court. The
20 Debtor also seeks authority to deviate from the line items contained in the Budget by not more than
21 10%, on both a line item and aggregate basis, with any unused portions to be carried over into the
22 following week(s), which is consistent with the variances approved in the Interim Order and Final
23 Order.

24 33. The Debtor must be able to use its cash, in accordance with the Budget, to pay
25 expenses which are critical to the maintenance and preservation of the Hotel. If the Debtor does
26 not obtain authority to use its cash collateral, the Debtor's estate will suffer potentially irreparable
27 harm, including, without limitation, the termination of utility services at the Hotel and the
28

1 termination of insurance coverage for the Hotel, which in turn will jeopardize the value of the
2 Hotel and the FF&E which are maintained at the Hotel.

3 34. In the event that the Receiver Motion is denied at the continued hearing on June 3,
4 2021, and the Receiver is required to turn over possession and control of the Debtor's assets
5 (including the Hotel) to the Debtor, the Debtor will need to spend cash to secure, maintain, and if
6 appropriate make repairs to the Hotel. Accordingly, the Budget provides for the payment of
7 expenses necessary to secure, maintain, and make any appropriate repairs to the Hotel, in the
8 estimated sum of \$5,000 every two weeks.

9 35. In addition, the Budget provides for the payment of the outstanding balance of the
10 storage fees owed by the Debtor to the Warehouse (which the Debtor estimates will total almost
11 \$9,000 by mid-June, 2021 and for which the Warehouse has asserted a warehouseman's lien), to
12 secure the release of the FF&E that is currently being stored at the Warehouse.

13 36. As reflected in the Budget, the Debtor's current cash is not sufficient to pay all of
14 the expenses set forth in the Budget, including those critical expenses required to be paid to secure,
15 maintain and preserve the Hotel. The Debtor therefore requires post-petition funding to pay such
16 expenses.

17 36. Fortunately, M+D (the Debtor's non-member Manager), of which I am also a
18 principal, has agreed to provide the Debtor with post-petition financing in an amount up to
19 \$100,000 on a general unsecured basis and on an as-needed basis, subject to the discretion of
20 M+D (the "DIP Loan"). The DIP Loan has been offered by M+D on an interest-free basis. Any
21 advance made to the Debtor by M+D shall be deemed an allowed general unsecured claim
22 against the Debtor's bankruptcy estate.

23 37. As reflected by the Budget, I believe that the proposed DIP Loan from M+D will
24 provide the Debtor with sufficient funds to pay all of the expenses reflected in the Budget during
25 the period covered by the Budget.

26
27
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1 38. I believe that the terms and conditions of the DIP Loan are fair and reasonable,
2 reflect the Debtor's exercise of prudent business judgment consistent with its fiduciary duty and
3 are supported by reasonably equivalent value and fair consideration. The DIP Loan has been
4 negotiated in good faith between the Debtor and M+D, with the Debtor being represented by able
5 counsel.

6 39. I believe that, in the absence of the proposed DIP Loan, the Debtor's estate would
7 suffer irreparable harm, including, without limitation, damage to the Hotel (which is the Debtor's
8 primary asset) due to the Debtor's inability to pay expenses critical to the maintenance and
9 preservation of the Hotel. I believe such harm would, in turn, negatively impact the Debtor's
10 ability to successfully reorganize in this case since the preservation and maintenance of the Hotel
11 and the Debtor's other assets are critical to a successful restructuring in this case.

12 || 40. A proposed form of order granting the Motion is attached as **Exhibit “2”** hereto.

13 I declare under penalty of perjury under the laws of the United States of America that the
14 foregoing is true and correct.

15 Executed this 18th day of May, 2021, at Buena Park, California.

Powder Blue

DONALD CHAE

EXHIBIT “1”

The Source Hotel, LLC - Debtor in Possession
18-Week Cash Flow Projection

Week ending=====>	WEEK ENDING									
	6/4/2021	6/11/2021	6/18/2021	6/25/2021	7/2/2021	7/9/2021	7/16/2021	7/23/2021	7/30/2021	8/6/2021
BEGINNING CASH BALANCE	\$ 9,422.46	\$ 18,222.46	\$ 18,208.46	\$ 9,208.46	\$ 2,683.57	\$ 6,483.57	\$ 6,469.57	\$ 6,469.57	\$ 6,069.57	\$ 14,944.68
RECEIPTS:										
Current bank balances, 5/10/2021:										
Operating acct	\$ 17,797.35									
Tax acct	\$ 0									
Unsecured Advances from M+D	10,000.00		5,000.00		10,000.00		5,000.00		20,000.00	
<i>Total Receipts</i>	<i>10,000.00</i>	<i>-</i>	<i>5,000.00</i>	<i>-</i>	<i>10,000.00</i>	<i>-</i>	<i>5,000.00</i>	<i>-</i>	<i>20,000.00</i>	<i>-</i>
DISBURSEMENTS:										
Insurance			6,124.89						6,124.89	
Utilities	1,200.00	14.00		400.00	1,200.00	14.00		400.00		1,200.00
Property Taxes										
Security, Maintenance, Repairs			5,000.00		5,000.00		5,000.00		5,000.00	
HBA/FDH storage fee (est)			9,000.00							
<i>Total Disbursements</i>	<i>1,200.00</i>	<i>14.00</i>	<i>14,000.00</i>	<i>6,524.89</i>	<i>6,200.00</i>	<i>14.00</i>	<i>5,000.00</i>	<i>400.00</i>	<i>11,124.89</i>	<i>1,200.00</i>
<i>Net Change in Cash Position</i>	<i>8,800.00</i>	<i>(14.00)</i>	<i>(9,000.00)</i>	<i>(6,524.89)</i>	<i>3,800.00</i>	<i>(14.00)</i>	<i>-</i>	<i>(400.00)</i>	<i>8,875.11</i>	<i>(1,200.00)</i>
ENDING CASH POSITION	\$ 18,222.46	\$ 18,208.46	\$ 9,208.46	\$ 2,683.57	\$ 6,483.57	\$ 6,469.57	\$ 6,469.57	\$ 6,069.57	\$ 14,944.68	\$ 13,744.68

8/13/2021	8/20/2021	8/27/2021	9/3/2021	9/10/2021	9/17/2021	9/24/2021	10/1/2021
\$ 13,744.68	\$ 13,730.68	\$ 13,730.68	\$ 7,205.79	\$ 16,005.79	\$ 10,991.79	\$ 15,991.79	\$ 4,466.90
<u>5,000.00</u>	<u>5,000.00</u>	<u>10,000.00</u>		<u>5,000.00</u>		<u>5,000.00</u>	
<u>5,000.00</u>	-	<u>5,000.00</u>	<u>10,000.00</u>	-	<u>5,000.00</u>	-	<u>5,000.00</u>
14.00		6,124.89			6,124.89		
		400.00	1,200.00	14.00	400.00	1,200.00	
5,000.00		5,000.00		5,000.00		5,000.00	
<u>5,014.00</u>	-	<u>11,524.89</u>	<u>1,200.00</u>	<u>5,014.00</u>	-	<u>11,524.89</u>	<u>1,200.00</u>
<u>(14.00)</u>	-	<u>(6,524.89)</u>	<u>8,800.00</u>	<u>(5,014.00)</u>	<u>5,000.00</u>	<u>(11,524.89)</u>	<u>3,800.00</u>
<u>\$ 13,730.68</u>	<u>\$ 13,730.68</u>	<u>\$ 7,205.79</u>	<u>\$ 16,005.79</u>	<u>\$ 10,991.79</u>	<u>\$ 15,991.79</u>	<u>\$ 4,466.90</u>	<u>\$ 8,266.90</u>

Verification: Beg Balance \$ 9,422.46
 Funding 80,000.00
 Disbursements (81,155.56)
 Ending Balance \$ 8,266.90

EXHIBIT “2”

RON BENDER (SBN 143364)
JULIET Y. OH (SBN 211414)
LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.
10250 Constellation Boulevard, Suite 1700
Los Angeles, California 90067
Telephone: (310) 229-1234
Facsimile: (310) 229-1244
Email: RB@LNBYB.COM; JYO@LNBYB.COM

Proposed Attorneys for Chapter 11 Debtor and
Debtor-in-Possession

**UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA DIVISION**

In re:

THE SOURCE HOTEL, LLC, a
California limited liability company,

Debtor and Debtor in Possession.

Case No.: 8:21-bk-10525-ES

Chapter 11

**ORDER GRANTING MOTION FOR
ENTRY OF AN ORDER: (A)
AUTHORIZING DEBTOR TO USE CASH
COLLATERAL; AND (B) AUTHORIZING
DEBTOR TO OBTAIN POST-PETITION
FINANCING FROM M+D PROPERTIES
ON AN UNSECURED BASIS**

Hearing:

Date: June 10, 2021
Time: 10:30 a.m.
Place: ZoomGov

1 A hearing was held on June 10, 2021 at 10:30 a.m. (the “Hearing”), before the Honorable
2 Erithe A. Smith, United States Bankruptcy Judge for the Central District of California, Los
3 Angeles Division, in Courtroom “5A” located at 411 West Fourth Street, Santa Ana, California
4 92701 (via ZoomGov), to consider final approval of the motion (the “Motion”) filed by The
5 Source Hotel, LLC, a California limited liability company and the debtor and debtor-in-
6 possession in the above-captioned Chapter 11 bankruptcy case (the “Debtor”), for the entry of a
7 final order: (A) authorizing the Debtor to use cash collateral in accordance with the Debtor’s
8 proposed operating budget covering the approximately four-month period from May 29, 2021
9 through and including October 1, 2021 (the “Budget”), a true and correct copy of which is
10 attached as Exhibit “1” to the Declaration of Donald Chae (the “Chae Declaration”) annexed to
11 the Motion; and (B) authorizing the Debtor to obtain post-petition financing up to \$80,000 on a
12 general unsecured basis (the “DIP Loan”) from the Debtor’s affiliate and non-member Manager,
13 M+D Properties, a California corporation (“M+D”), on an as-needed basis to cover any shortfalls
14 in the Budget. Appearances at the Hearing were made as set forth on the record of the Court.

15 The Court, having considered the Motion and all papers filed by the Debtor in support of
16 the Motion, the oral arguments, statements and representations of counsel made at the Hearing
17 on the Motion, and all matters of record in the Debtor’s Chapter 11 bankruptcy case, proper and
18 adequate notice of the Hearing on the Motion having been provided, and other good cause
19 appearing therefor,

20 **IT IS HEREBY ORDERED AS FOLLOWS:**

21 A. The Motion is granted.

22 B. The Debtor is authorized to use cash collateral, on a final basis, to pay (i) all of
23 the expenses set forth in the Budget, with authority to deviate from the line items contained in
24 the Budget by up to 10%, on both a line item and aggregate basis, with any unused portions to be
25 carried over into the following week(s) and (ii) all quarterly fees owing to the Office of the
26 United States Trustee and all expenses owing to the Clerk of the Bankruptcy Court.

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C. As adequate protection to Shady Bird on account of the Debtor's use of cash collateral, Shady Bird shall be granted a valid, enforceable, non-avoidable and fully perfected first priority replacement lien on, and security interest in, the Debtor's post-petition assets, including cash ("Replacement Lien"), to the extent of any diminution in value of Shady Bird's interest in the Debtor's pre-petition collateral, and to the same extent, validity, scope and priority of Shady Bird's pre-petition lien.

D. This Order is without prejudice to the request of Shady Bird for any modification of, or further or different, adequate protection, nor to the right of the Debtor to oppose any such request.

10 E. The Debtor is authorized to obtain the DIP Loan from M+D in an amount up to
11 \$80,000, at the discretion of M+D, to cover any shortfalls in the Debtor's Budget.

IT IS SO ORDERED.

###

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is 10250 Constellation Boulevard, Suite 1700, Los Angeles, CA 90067

A true and correct copy of the foregoing document entitled **NOTICE OF MOTION AND MOTION FOR ENTRY OF AN ORDER (A) AUTHORIZING DEBTOR TO USE CASH COLLATERAL; AND (B) AUTHORIZING DEBTOR TO OBTAIN POST-PETITION FINANCING FROM M+D PROPERTIES ON AN UNSECURED BASIS; MEMORANDUM OF POINTS AND AUTHORITIES; DECLARATION OF DONALD CHAE IN SUPPORT THEREOF** will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF): Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On **May 19, 2021**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

- Ron Bender rb@lnbyb.com
- Christopher G. Cardinale ccardinale@agclawfirm.com, mgonzalez@agclawfirm.com
- Michael G Fletcher mfletcher@frandzel.com, sking@frandzel.com
- Amir Gamliel amir-gamliel-9554@ecf.pacerpro.com, cmallahi@perkinscoie.com;DocketLA@perkinscoie.com
- Robert P Goe kmurphy@goforlaw.com, rgoe@goforlaw.com;goeforecf@gmail.com
- Nancy S Goldenberg nancy.goldenberg@usdoj.gov
- Peter F Jazayeri peter@jaz-law.com
- Daniel A Lev dlev@sulmeyerlaw.com, ccaldwell@sulmeyerlaw.com;dlev@ecf.inforuptcy.com
- Grant A Nigolian grant@gnpclaw.com, process@gnpclaw.com;grant.nigolian@gmail.com
- Juliet Y Oh jyo@lnbrb.com, jyo@lnbrb.com
- Ho-El Park hpark@hparklaw.com
- Ronald N Richards ron@ronaldrichards.com, morani@ronaldrichards.com
- United States Trustee (SA) ustpregion16.sa.ecf@usdoj.gov

2. SERVED BY UNITED STATES MAIL: On **May 19, 2021**, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

Service List continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on **May 19, 2021**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

None.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

May 19, 2021

Date

Stephanie Reichert

Type Name

/s/ Stephanie Reichert

Signature

The Source Hotel, LLC
OUST, Secured, Top 20, RSN

Counsel to Evertrust Bank
Michael Fletcher, Esq.
Frandsel Robins Bloom & Csato, L.C.
1000 Wilshire Boulevard, 19th Floor
Los Angeles, CA 90017-2427

United States Trustee (SA)
411 W Fourth St., Suite 7160
Santa Ana, CA 92701-4500

Secured Creditors:

3D Design - Millwork
8152 Indianapolis Ave.
Huntington Beach, CA 92646

Aragon Construction, Inc.
5440 Arrow Highway
Montclair, CA 91763

Beach Orangethorpe II, LLC
P.O. Box 489
Buena Park, CA 90621

Beach Orangethorpe III, LLC
P.O. Box 489
Buena Park, CA 90621

Beach Orangethorpe, LLC
P.O. Box 489
Buena Park, CA 90621

Beachamp Distributing Co.
1911 South Santa Fe Avenue
Compton, CA 90221

Best Quality Painting
818 N. Pacific Ave., #C
Glendale, CA 91203

Certified Tile
14557 Calvert St.
Van Nuys, CA 91411

Evergreen Electric Construction
629 Grove View Lane
La Canada, CA 91011

Iron Mechanical
721 North B Street
Suite 100
Sacramento, CA 95811

KS Steel Corp.
1748 Industrial Way
Los Angeles, CA 90023

Nemo & Rami
1930 W. Holt Ave.
Pomona, CA 91768

Northstar
404 North Berry Street
Brea, CA 92821-3104

Pan Pacific
18250 Euclid Street
Fountain Valley, CA 92708

PDG Wallcoverings
26492 Via Juanita
Mission Viejo, CA 92691

Prime Concrete Coatings
6127 James Alan St.
Cypress, CA 90630

Resco Electric Inc.
2431 W. Washington Blvd. Suite B
Los Angeles, CA 90018

Retrolock Corp
17915 Railroad Street
City of Industry, CA 91748

Salamander Fire Protection, Inc
6103 Tyrone Street
Van Nuys, CA 91401

Shady Bird Lending, LLC
c/o Law Offices of Ronald Richards
P.O. Box 11480
Beverly Hills, CA 90213

Solid Construction
883 Crenshaw Blvd.
Los Angeles, CA 90005

Sunbelt Controls, Inc.
888 E. Walnut Street
Pasadena, CA 91101

Grant Nigolian, P.C.
695 Town Center Drive, Suite 700
Costa Mesa, CA 92626

Hunt Ortmann Palffy Nieves et al.
301 North Lake Avenue, 7th Floor
Pasadena, CA 91101-1807

Law Office of Ho-El Park, P.C.
333 City Blvd. West, Suite 1700
Orange, CA 92868

Law Office of Michael N. Berke
25001 The Old Road
Santa Clarita, CA 91381

Law Offices of Dennis G. Cocco
345 Oxford Drive
Arcadia, CA 91007

Porter Law Group, Inc.
7801 Folsom Blvd., Suite 101
Sacramento, CA 95826

Robinson & Robinson, LLP
2301 Dupont Drive, Suite 530
Irvine, CA 92612-7502

Shady Bird Lending, LLC
c/o Law Offices of Geoffrey Long
1601 N. Sepulveda Blvd., No. 729
Manhattan Beach, CA 90266

Splinter & Thai, LLP
25124 Narbonne Ave., Suite 106
Lomita, CA 90717-2140

Top 20 Unsecured Creditors:

Newgens, Inc.
14241 Foster Rd.
La Mirada, CA 90638

Cabrillo Hoist
P.O. Box 3179
Rancho Cucamonga, CA 91729

WESCO Distribution Inc.
6251 Knott Ave.
Buena Park, CA 90620

Harbor All Glass & Mirror, Inc.
1926 Placentia Ave.
Costa Mesa, CA 92627

Diablo Consulting
13200 Crossroads Parkway N
Ste. 115
City of Industry, CA 91746

Ace Tek Roofing Co.
747 S. Ardmore Ave., Suite 405
Los Angeles, CA 90005

Morrow Meadows
231 Benton Court
City of Industry, CA 91789

Chefs Toys
18430 Pacific Street
Fountain Valley, CA 92708

Stumbaugh & Associates, Inc.
3303 N. San Fernando Blvd
Burbank, CA 91504

HBA Procurement, Inc.
3216 Nebraska Ave.
Santa Monica, CA 90404

OJ Insulation LP
600 S Vincent Ave.
Azusa, CA 91702

DKY Architects
15375 Barranca Pkwy.
Suite A-210
Irvine, CA 92618

Master Glass
2225 W. Pico Blvd, Unit C
Los Angeles, CA 90006

Universal Flooring Systems
15573 Commerce Lane
Huntington Beach, CA 92649

L2 Specialties
3613 W. Macarthur Blvd., #611
Santa Ana, CA 92704

Ficcadenti Waggoner
16969 Von Karman Avenue
Suite 240
Irvine, CA 92606

Retrolock Corp
17915 Railroad Street
City of Industry, CA 91748

American Engineering Laboratories Inc.
PO Box 1816
Whittier, CA 90609